

RD AN No. 3606 (1965-B)
January 18, 2001

TO: State Directors
Rural Development

ATTN: Rural Development and Community Development Managers

FROM: James C. Kearney *(Signed by James C. Kearney)*
Administrator
Rural Housing Service

SUBJECT: Preservation Proposals for Equity Funding

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance on how to access \$4.3 million of the FY 2001 Section 515 reserve that is made available to fund innovative approaches to preserve rental housing. For example, providing equity at the time of transfer to a non-profit or public body in exchange for a restrictive-use agreement that assures that the project will remain as affordable housing for its remaining useful life would be considered an innovative approach to preservation. This AN announces that proposals to use these funds should be submitted to the Office of Rental Housing Preservation (ORHP) by March 30, 2001.

COMPARISON WITH PREVIOUS AN:

Expired AN 3492 (1965-E), dated November 8, 1999, provided guidance on how funds may be used to allow for equity at the time of a within program transfer of ownership as referenced in RD Instruction 1965-B. That guidance contained in expired AN 3492 is repeated on the Attachment to this AN. Expired AN 3543 (1965-B), dated April 21, 2000, provided guidance on submitting preservation proposals for equity funding using FY 2000 funds.

IMPLEMENTATION RESPONSIBILITIES:

States wishing to submit proposals for consideration for funding should submit a short request memorandum along with the basic project information contained on the top of Guide Letter 1965-E-1. Your memorandum should address the following:

EXPIRATION DATE: December 31, 2001

FILING INSTRUCTIONS:
Preceding RD
Instruction 1965-B

- The anticipated equity loan and the percentage of equity that the loan represents.
- The number of RA units needed.
- The number of RA units available from unused RA in the State that you are willing to commit to the preservation of this project and the number of RA units you are requesting from the National Office.
- A brief description of the proposed transaction, if the equity loan is to be combined with tax credit proceeds or third party financing for equity.
- Will the property require repair or rehabilitation work and if so, the amount and where the funds will come from? Specifically, will equity loan funds be used? Please delineate between deferred maintenance and rehabilitation and repair.
- Will the transfer be to a non-profit or limited profit borrower entity?
- If the limited profit borrower is willing to accept 30-years restrictive-use provisions.
- Can the transfer be completed prior to August 3, 2001?
- Is there a potential impact on minorities and is the project needed in the community?

Please direct any questions about this issue to ORHP. You may contact Larry Anderson at (202) 720-1611 or landers@rdmail.rural.usda.gov or Cynthia Reese-Foxworth at (202) 720-1940 or cfoxwort@rdmail.rural.usda.gov.

To facilitate the preservation of existing MFH projects, the Agency is willing to consider waiving Section 1965.65(b)(3)(vi) and (c) (5) of RD Instruction 1965-B to allow for an equity payment to the transferor at the time of a transfer. When considering a waiver the following conditions must be met:

1. The appraisal for the equity determination will be at an “As Is” unsubsidized value.
2. The Office of Rental Housing Preservation (ORHP) must approve the equity payment using the process established on the incentive calculation worksheet. Project rents will not exceed comparable conventional rents.
3. The loan may be up to 100 percent of equity for nonprofit entities that agree to restrictive-use provisions for the remaining useful life of the project or limited partnerships that agree to 30 years restrictive-use provisions.

If a subsequent loan is completed as part of the transaction, an appraised value using subsidy and an “As Improved” value may be used if appropriate.